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## Office of Retirement Services

Serving more than 530,000 customers

### Overview

PURE MICHIGAN

March 4, 2015

## Overview: Office of Retirement Services

- ♦ Serving Michigan customers:
  - 1 of every 14 adults
  - 1 of every 9 households
- ♦ Market value of defined benefit assets is approximately \$60 Billion\*
  - 16<sup>th</sup> Largest Public Pension Fund in the U.S.
- ♦ Defined Contribution assets of approximately \$6 Billion

\*As of September, 2014



## Overview of Retirement Plans

ORS serves over a ½ million customers and administers the following retirement plans:

- ♦ Michigan Public School Employees
  - Defined Benefit Plan
  - Hybrid Plan
  - Defined Contribution Plan
  - Retiree Health Care Plan
- ♦ Michigan State Employees
  - Defined Benefit Plan
  - Defined Contribution Plan
- ♦ Michigan State Police
  - Defined Benefit Plan
  - Hybrid Plan
- ♦ Michigan Judges
  - Defined Benefit Plan
  - Defined Contribution Plan
- ♦ Military
  - Defined Benefit Plan
  - Defined Contribution Plan
- ♦ Education Achievement Authority (EAA)
  - Defined Contribution Plan

## Financial Information

- ♦ Comprehensive Annual Financial Reports are available at [www.michigan.gov/ors](http://www.michigan.gov/ors).
- ♦ Highlights:
  - Hybrid plans for the State Police force and the educational community are over 100% funded.
  - Judges Retirement System is nearly fully funded.
  - Significant progress with prefunding retiree health care has been made.

## Recent Industry Awards

*The Office of Retirement Services is a best-practice leader in plan design and administration.*

- Finalist in the Public Defined Contribution (DC) Category for the PLANSponsor Plan Sponsor of the Year in 2014.
- Health Advantage Awards for Strategy and Growth from Thomson Reuters in 2012 and 2014.
- Leadership Awards for Effective Communication from the National Association of Governmental Defined Contribution Administrators in 2011, 2012, 2013 and 2014.
- Leadership Award for Effective Plan Design from the National Association of Governmental Defined Contribution Administrators in 2014.
- Leadership Recognition Award for Plan Design and Administration from the National Association of Governmental Defined Contribution Administrators in 2009.
- Pension & Investments' Eddy Award in 2012 and 2015.
- Best in Show Award from the Insurance and Financial Communicators Association in 2013.
- Public Pension Standards Award from the Public Pension Coordinating Council in the past 11 consecutive years.
- Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) in the past 23 consecutive years.

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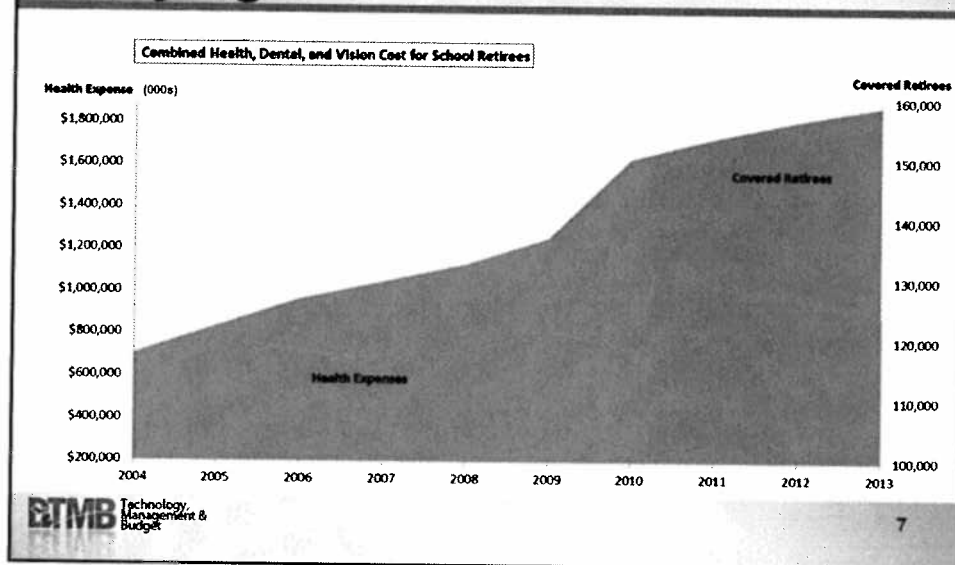
## Key Points

- ♦ Continued focus on financial security for career employees.
- ♦ The Office of Retirement Services has had recent performance and financial audits. There were no material findings, and the retirement system continues to provide best-in-class service.
- ♦ We are gradually growing out of the effects of the 2008/2009 "Great Recession".
- ♦ Good investment returns will positively impact the system.
- ♦ Retiree healthcare pre-funding and asset levels continue to improve.

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## Retiree Healthcare Costs: Defying the Trends



## Background and Successes – Public Schools

- ◆ Reform: PA 300 of 2012.
  - Established a 20.96% cap on the UAAL rate.
  - Provided all new employees a choice for which retirement plan to participate in.
  - Rightsized the benefit levels.
  - Began pre-funding retiree health care.
- ◆ Over \$15 billion in liability reduction
- ◆ Provides certainty and stability for employers.

## Hybrid Plan Successes

- ♦ Focuses on career-oriented employees.
- ♦ Decreased risk by 1/3 based on benefit levels changes and using more conservative assumptions.
  - Hybrid plan over 100% funded.
- ♦ Retirement age: minimum age 60.
- ♦ Since its creation in 2010, the Hybrid plan has exceeded its 7% assumed rate of investment return.
- ♦ With the DC component of the Hybrid plan and DB member contributions, sets up shorter-term employees for financial success as well.

## Financial Security

- Access to an Employer-Sponsored plan
- Social Security
- Other Personal *Savings*



## Needs for the Future

- ♦ Maintain the retirement plan that works.
- ♦ Stability and predictability.
- ♦ Educate people on the value of the plan.
- ♦ PA 300 of 2012 did not update the funding model to reflect today's unique educational structure in Michigan.

## DTMB Partners With Voya to Provide DC Services

- ♦ The Defined Contribution portion of the plans is provided by a partnership between DTMB-ORS and Voya, leveraging our size.
- ♦ Delivers a quality product with more choices and comprehensive services at a low cost.
- ♦ One-stop shopping for employees.
- ♦ Employers use existing reporting tools.

## Help People Financially Stand On Their Own Two Feet

- Retirement plans are a necessity.

83% of Americans are concerned about their ability to retire in the current economic environment. (Source: National Institute on Retirement Security)

- ♦ When people are unable to be self-sufficient in retirement, they:
  - Work indefinitely, for those who are physically able and can find a job.
  - Live in poverty.
  - Turn to outside assistance – Family, Government (taxpayers)..

*"If you fail to plan, you are planning to fail."*

– Benjamin Franklin

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## Communities

- ♦ Employer's recruiting/retention goal: to attract the very best through competitive benefits packages, including insurances and **a comprehensive retirement plan**.

- Enticing
- Rewarding
- Affordable
- Competitive



... Used to retain valuable employees and ensure an orderly transition from active employment to retirement

- ♦ Employees need a competitive benefit that will provide security
- ♦ Communities need the stability, infrastructure, and economic engine provided by retirement benefits

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## Strengthening Communities

- ◆ Retirees inject more than \$4.6 billion into Michigan communities.
  - 84% are financially self-sufficient.
  - 88% of ORS retirees stay in Michigan.
  - 97% actively vote in elections.
  - 98% give to charity.
  - 85% actively volunteer.

## In Their Own Words...

### ORS Retirees on the Value of a Retirement Benefit

*"It means the difference between being self-sufficient and needing financial help. I value my ability to live independently, and my pension allows me to do that."*

*"My pension has given me the ability to retire from full time work to take care of my 91-year-old mother, care for my own health needs, serve my church and community, travel, and ease into aging with security."*

*"Every month we contribute to a number of charities, including those for veterans, people with disabilities, and people who need help with food and utilities. We also faithfully pay tithes to our church. I volunteer 2-4 hours per week at the local food bank. Without our pensions, we would be unable to do many of those things, and we would not be able to maintain our current standard of living."*

*"... without it, I'd have to sell our house and live in our truck."*



## National & International Trends

- ♦ Longer careers.
- ♦ Later retirement ages.
- ♦ Longer retirements.
- ♦ Concerns about financial security for retirees.
- ♦ Best in Class: Ontario has designed its own retirement system – in addition to Canada's national program – in order to ensure financial security.
- ♦ Struggling: Japan is ranked at the bottom of the AEGON Retirement Readiness Index.

## National Trends

- ♦ Some discussion of alternative plan designs – most states have not changed.
  - If they change, it typically only effects new employees.
  - Some alternatives fall short.
- ♦ Many employers are wary of removing a workforce management tool. Where alternatives fall short, it is generally in:
  - Rewarding career employees.
  - Providing an adequate benefit
  - Providing an orderly benefit in retirement.

## Guiding Principles

- ♦ It is good public policy to promote financial security in retirement.
- ♦ Planning for healthcare is a critical component of financial security in retirement.
- ♦ Retirement benefits are valuable for employers in providing a quality workforce.
- ♦ Provide the best service to our communities – educationally and economically.

## Contact Information

- ♦ Office of Retirement Services  
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